

**REPORT OF THE AUDIT OF THE  
FORMER TODD COUNTY  
SHERIFF**

**For The Period  
January 1, 2014 Through January 4, 2015**



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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FORMER TODD COUNTY SHERIFF**

**For The Year Ended  
January 1, 2014 Through January 4, 2015**

The Auditor of Public Accounts has completed the former Todd County Sheriff's audit for the period January 1, 2014 through January 4, 2015. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees increased by \$1,606 from the prior year, resulting in excess fees of \$281,423 as of January 4, 2015. Receipts increased by \$2,439 from the prior year and disbursements increased by \$833.

#### **Report Comments:**

- 2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Reconciliations
- 2014-002 The Former Sheriff's Quarterly Report Was Materially Misstated

#### **Deposits:**

The former Sheriff's deposits as of November 6, 2014 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$162,172

The former Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.



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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Daryl Greenfield, Todd County Judge/Executive  
The Honorable Arthur Johnson, Former Todd County Sheriff  
The Honorable Tracy White, Todd County Sheriff  
Members of the Todd County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying statement of receipts, disbursements, and excess fees - regulatory basis of the former County Sheriff of Todd County, Kentucky, for the period January 1, 2014 through January 4, 2015, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Daryl Greenfield, Todd County Judge/Executive  
The Honorable Arthur Johnson, Former Todd County Sheriff  
The Honorable Tracy White, Todd County Sheriff  
Members of the Todd County Fiscal Court

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the former County Sheriff, as of January 4, 2015, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Sheriff for the period January 1, 2014 through January 4, 2015, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated August 28, 2015 on our consideration of the former Todd County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the former Todd County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control over financial reporting and compliance.



The Honorable Daryl Greenfield, Todd County Judge/Executive  
The Honorable Arthur Johnson, Former Todd County Sheriff  
The Honorable Tracy White, Todd County Sheriff  
Members of the Todd County Fiscal Court

**Other Reporting Required by Government Auditing Standards (Continued)**

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Reconciliations
- 2014-002 The Former Sheriff's Quarterly Report Was Materially Misstated

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen  
Auditor of Public Accounts

August 28, 2015

TODD COUNTY  
ARTHUR JOHNSON, FORMER SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Period January 1, 2014 Through January 4, 2015

Receipts

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	10,145
State Fees For Services:		
Finance and Administration Cabinet	\$	56,377
Sheriff Security Service	<u>7,139</u>	63,516
Circuit Court Clerk:		
Court Ordered Payments		11,784
Fiscal Court		86,330
County Clerk - Delinquent Taxes		8,563
Commission On Taxes Collected		145,709
Fees Collected For Services:		
Auto Inspections	5,005	
Accident and Police Reports	615	
Serving Papers	12,830	
Carrying Concealed Deadly Weapon Permits	<u>4,352</u>	22,802
Other:		
Add-On Fees	17,745	
Telecommunications Commissions	818	
Miscellaneous	<u>5</u>	18,568
Interest Earned		<u>47</u>
Total Receipts		367,464
Less: Statutory Maximum		<u>82,131</u>
Excess Fees		285,333
Less: Training Incentive Benefit		<u>3,910</u>
Excess Fees Due County for 2014		281,423
Payments to Fiscal Court - Monthly		<u>281,081</u>
Balance Due Fiscal Court at Completion of Audit *	<u>\$</u>	<u>342</u>

\* - The Sheriff presented a check to the Fiscal Court for excess fees on August 28, 2015.

The accompanying notes are an integral part of this financial statement.

TODD COUNTY  
NOTES TO FINANCIAL STATEMENT

January 4, 2015

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.192 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at January 4 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2015 services
- Reimbursements for 2015 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2015

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

TODD COUNTY  
NOTES TO FINANCIAL STATEMENT  
January 4, 2015  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The Todd County Sheriff participates in a fee pooling system with the Fiscal Court. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The fee official is responsible for paying all amounts due to the taxing districts. Residual funds are then paid to the County Treasurer on a monthly basis. Invoices are submitted to the County Treasurer to document operating expenses. The County Treasurer pays almost all operating expenses for the fee official.

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent for the first six months and 17.67 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

TODD COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 January 4, 2015  
 (Continued)

Note 2. Employee Retirement System (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Todd County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Todd County Sheriff did not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of January 4, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 6, 2014, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured      \$162,272

Note 4. Drug Fund

The Sheriff's office established a Drug Enforcement Fund to account for monies received from court ordered forfeitures in connection with drug related arrests. The beginning balance as of January 1, 2014 was \$1,681. During the period January 1, 2014 through January 4, 2015, receipts were \$5 and disbursements were \$320. The fund balance as of January 4, 2015 was \$1,366.

Note 5. Donations

The Sheriff's office was awarded funds by Wal-Mart. These funds are to be used to provide computers for the Sheriff's office. The beginning balance in the Donation Fund was \$500 on January 1, 2014. During the period January 1, 2014 through January 4, 2015, there were no receipts and disbursements were \$500. The fund balance as of January 4, 2014 was \$0.

TODD COUNTY  
NOTES TO FINANCIAL STATEMENT  
January 4, 2015  
(Continued)

Note 6. Commitments and Contingencies

The former Sheriff is involved in a lawsuit that arose from the normal course of doing business. While the outcome of this lawsuit may not be significant, due to the uncertainty of the litigation, a reasonable estimate cannot be made at this time.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Daryl Greenfield, Todd County Judge/Executive  
The Honorable Arthur Johnson, Former Todd County Sheriff  
The Honorable Tracy White, Todd County Sheriff  
Members of the Todd County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the statement of receipts, disbursements, and excess fees - regulatory basis of the former Todd County Sheriff for the period January 1, 2014 through January 4, 2015, and the related notes to the financial statement and have issued our report thereon dated August 28, 2015. The former County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the former Todd County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Todd County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Todd County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-001 and 2014-002 to be material weaknesses.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the former Todd County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

August 28, 2015

## COMMENTS AND RECOMMENDATIONS



TODD COUNTY  
ARTHUR JOHNSON, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2014 Through January 4, 2015

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2014-001    The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Reconciliations

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The former Sheriff's office lacked adequate segregation of duties over the accounting and reporting functions of the office. The former Sheriff's bookkeeper was responsible for receiving cash, preparing daily deposits, posting to receipts ledger, preparing monthly bank reconciliations, and preparing monthly and quarterly reports.

A lack of segregation of incompatible duties or strong oversight increases the risk that errors could occur and not be detected. This condition was a result of a limited budget, which restricted the number of employees the former Sheriff could hire or delegate duties to.

A proper segregation of duties over the accounting and reporting functions such as preparation of the quarterly reports or implementing compensating controls, when necessary because of a limited number of staff, is essential for providing protection from errors occurring and not being detected. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

The former Sheriff should have separated the duties involved in receiving cash preparing, deposits, posting to ledgers, preparing monthly bank reconciliation, preparing financial reports, and comparing financial reports to ledgers. If, due to a limited budget, this was not feasible, cross-checking procedures could have been implemented and documented by the individual performing the procedure.

*Former Sheriff's Response: No Response.*

2014-002    The Former Sheriff's Quarterly Report Was Materially Misstated

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The former Todd County Sheriff's Quarterly Financial Report for calendar year 2014 was materially misstated. All receipts received by the office and recorded on the receipts ledger were not included on the quarterly report. By leaving these totals off of the quarterly report, the former Sheriff's financial statement was materially misstated. Therefore, the financial statement potential use by management and citizens has been effectively reduced. This was caused by the former Sheriff leaving off one particular type of receipt from the quarterly report. The former Sheriff left this type of receipt off of the quarterly report due to a misunderstanding between his office and the County Treasurer. Strong internal controls and accepted record keeping procedures require all receipts and disbursements to be included on the financial statement. By leaving off receipts received by the former Sheriff's office and recorded on the ledgers, the ledgers are not a useful management tool for making decisions. We recommend that the Sheriff's office ensure that all receipts and disbursements recorded on the Sheriff's ledgers be included on the Sheriff's Quarterly Report.

*Former Sheriff's Response: No Response.*

